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RUEAIIA/CIA WASHINGTON DC
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RHEHNSC/NSC WASHDC

C O N F I D E N T I A L BAKU 001621

SIPDIS

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DEPT PLEASE PASS TO USTR FOR SHAUN DONNELLY, BETSY HAFNER
AND PAUL BURKHEAD
NSC FOR MATT PALMER
GENEVA FOR AMBASSADOR ALLGEIER
TREASURY FOR CLAY LOWERY, NANCY LEE AND JEFF BAKER
USDOC FOR U/S LAVIN

E.O. 12958: DECL: 11/07/2016

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SUBJECT: AZERBAIJAN: STATE OIL FUND ANNOUNCES YEAR-TO-DATE
REVENUES AND EXPENDITURES

Classified By: ACTING DCM JOAN A. POLASCHIK, PER REASONS 1.4 (B,D)

11. (C) SUMMARY: On November 1, the State Oil Fund announced that year-to-date budget revenues totaled USD 839.6 million while budget expenditures totaled USD 697.82 million. During the first nine months of 2006, the Oil Fund received revenue of USD 786.9 million from implementing oil and gas agreements, including USD 770.5 million from the sale of profit oil and USD 12.5 million from transit fees. Nearly 75 percent of the Oil Fund's expenditures are direct transfers to the Ministry of Finance for budgetary support. The Oil Fund also paid for several major water and irrigation infrastructure projects, and will provide USD 100 million in start-up capital to the new State Investment Company. Oil Fund Executive Director Shahmar Movsumov told a visiting German Marshall Fund delegation that the Fund does not have the staff or capacity to manage large-scale projects and fears that an influx of such projects could hinder the Fund's ability to manage Azerbaijan's energy resources effectively. The assets of the Oil Fund as of September 30, 2006 increased by 7.4 percent compared to the beginning of the year and totaled USD 1.569 billion. END SUMMARY.

12. (SBU) According to the Oil Fund, it received revenue of USD 786.9 million from implementing oil and gas agreements, including USD 770.5 million from the sale of profit oil and USD 12.5 million from transit fees. In addition, the Oil Fund received another USD 3.91 million from bonus payments, acreage payments and the sale of assets received from foreign companies operating under Production Sharing Agreements (PSAs). The State Oil Company (SOCAR) contributed USD 5.865 million to the Oil Fund from its sale of exported oil. The Oil Fund also received USD 47.5 million in revenue from its own assets.

13. (SBU) To date, the Oil Fund has transferred to the Ministry of Finance USD 523.25 million as budgetary support. In total, the Oil Fund will provide more than USD 600 million to the GOAJ in budgetary support. In addition, per the 2006 State Budget, the Oil Fund also directed to the Ministry of Finance USD 53.82 million for the construction of internally displaced persons housing and other efforts to improve the socio-economic conditions of IDPs.

14. (SBU) The Oil Fund paid USD 86 million for Azerbaijan's

shares in financing the Baku-Tbilisi-Ceyhan pipeline project.

The Oil Fund has also spent money on several public infrastructure projects, including USD 1.95 million for the construction of the Oghuz-Gabala-Baku water supply system and USD 8.625 million for financing the reconstruction of the Samur-Absheron irrigation system. The Oil Fund also transferred USD 23 million to the State Investment Company as part of this new organization's statutory capital. The State Oil Fund has been designated to fund a total of USD 100 million for the new State Investment Company. The Oil Fund's internal administrative and operation expenses in nine months totaled USD 8 million. The Oil Fund's extra-budgetary expenditures and payments including asset revaluation expenses, totaled USD 34 million in the first three quarters of 2006.

15. (C) The Oil Fund remains one of the Government of Azerbaijan's most transparent and well run organizations. To date, nearly 75 percent of the Oil Fund's expenditures are direct transfers to the Ministry of Finance for budgetary support. The Oil Fund's support for IDPs, directed through the Ministry of Finance, and infrastructure projects represent only nine percent of its expenditures. The Executive Director of the Oil Fund told a visiting German Marshall Fund Staff Fellow that the Oil Fund does not have the personnel or capacity to manage large infrastructure projects and would not take on additional projects. The Executive Director told the Staff Fellow that he feared that the Oil Fund would develop into a de facto second state budget, financing more and more projects and ruining the Fund's ability to manage the country's oil and gas revenues effectively.

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